

How COVID rewrote the rules for the Canadian Restaurant industry

Before COVID, anyone with good food, goodwill, and a good location could successfully operate a restaurant. However, the pandemic has created a shift in consumer behavior, supply chain, labor and financial markets rendering the old success factors insufficient.

1. Consumer behavior

Proprietary transaction data and aggregated consumer surveys reveal that 80% of Canadian consumers now prefer eating at home, a trend mirroring U.S. and EU markets, where post-pandemic home dining retention exceeds 70%. This translates into a global market shrinkage for restaurant operators.

Furthermore, the Canadian consumer base has recently shifted from the regular steakhouses, burgers, and pizza parlors to health-oriented, Mexican, Asian, and other non-western joints. This means that the remaining market size accrues to some more than others.

Finally, Canadians have less and less time to dedicate to the full-service experience. That, combined with an increased price sensitivity made the rise of cloud kitchens more appealing while full-service traffic remains below 2019 levels (Black Box Intelligence, 2025).

Restaurants are now facing a more frugal consumer, with varying tastes, and less time to spend onsite.

2. Supply chains

COVID shocks caused supply constraints across sectors, including F&B. Food and beverage prices, including restaurant meals, became a major CPI driver and have stayed that way. Food and beverage aggregate prices increased by 4% from December 2024 to April 2025, which is double the aggregate inflation target (Statcan, 2025).

The fragility isn't just about price, it's about predictability. Ingredient cost volatility has eroded the ability of independent operators to negotiate long-term supplier deals or maintain consistent margins. Larger chains, by contrast, have the volume leverage to lock in pricing or vertically integrate. The gap is widening.

As a result, 51% of Canadian full-service restaurants operate at loss or break-even (IBIS World, 2024)

3. Labor Market

Post-2020 labor participation remains depressed despite immigration, a pattern seen in U.K hospitality as well, where vacancies persist at 2x pre-pandemic levels (ONS,2025). Despite the demographic influx experienced in 2021, asymmetric information and housing shortages have hindered the market clearing process: There are jobseekers, independent restaurants are desperate for workforce, search friction remains high for low-wage roles.

Canada's record-low unemployment (5% as of May 2025, StatCan) and persistent job vacancies (around 100,000 unfilled roles, CFIB) indicate labor shortages are deepening, mirroring challenges in the UK and Australia.

While larger chains have HR departments, bulk deals with insurers, and a set of non-cash benefits available, independent restaurants can only rely on financial incentives. Over time, this may flatten regional culinary diversity and push local independents toward franchise conversion to remain viable.

Such scarcity translates into higher wages, which lead to tighter margins, or less competitive prices within a shrinking market.

4. Credit markets

The quantitative easing and fiscal stimuli seen in 2021 resulted in a tremendous capital supply shock that Canada has not been able to fully absorb. Such an abundance of money resulted in a demand shock and structural inflationary pressures, adding up to the effect of supply chain bottlenecks.

This, combined with supply chain woes, has led to chronically higher interest rates, effectively marking the end of the post-2008 era where capital was abundant.

This financing drought, compounded by CEBA conversion shocks in January 2024, is accelerating the closure rate of independents and freezing out capital. The restaurant sector, long a fragmented stronghold of small business ownership, is now ripe for consolidation.

Takeaway

COVID has led to a structural shift in the many markets restaurants interact with. Initiatives such as cost-saving, operational efficiency, or constant debt rollovers, while admirable, are individually inadequate to tackle deeper industry changes.

The real threat lies in the way each post-COVID pressure (consumer behavior, labor costs, supply fragility, capital scarcity) compounds the others. Restaurants are now operating in a closed system of mutually reinforcing constraints, where solving one problem often worsens another. Adaptation, therefore, requires structural reinvention, not incremental optimization. A transformation this deep rarely happens voluntarily. What comes next will be shaped by those who act first.

Methodology: This analysis synthesizes proprietary data from Sterling Corporate Solutions models, third-party vendors, and cross-market trends observed in OECD countries. Inflation and labor figures are benchmarked against official statistics where noted.